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HYDRA EXPLORATIONS LIMITED

Ninth Annual Report

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FOR THE YEAR ENDED MAY 31, 1968

HYDRA EXPLORATIONS LIMITED

President

A. W. JOHNSTON

Vice-President and General Manager

H. B. HICKS

Secretary-Treasurer

W. M. O'SHAUGHNESSY

Directors

A. W. JOHNSTON

H. B. HICKS

L. E. WETMORE

W. C. CAMPBELL

W. M. O'SHAUGHNESSY

Transfer Agent and Registrar

GUARANTY TRUST COMPANY OF CANADA
TORONTO AND MONTREAL

Auditors

CAMPBELL, LAWLESS & PUNCHARD
TORONTO

Head Office

SUITE 1600, 100 ADELAIDE STREET WEST, TORONTO 1, ONTARIO

NINTH ANNUAL REPORT

FOR THE YEAR ENDED MAY 31, 1968

DIRECTORS' REPORT TO THE SHAREHOLDERS:

October 22, 1968

The Directors are pleased to present the Ninth Annual Report of the Company, covering the year ended May 31, 1968, together with the financial statements for the period and the report of the Company's Auditors thereon.

The Company considered a number of property submissions during the year and carried out several field examinations, but none of these resulted in any claim acquisitions.

Diamond drilling of geophysical anomalies on the optioned 30-claim group of Premier Gaspe Mines Limited in Bonnecamp Township in the Gaspe Peninsula failed to return any values of interest and the option was allowed to lapse.

In partnership with another mining company, Hydra continued its investigation of a high-grade silver-lead-antimony property in the Bridge River district of British Columbia. A series of metallurgical tests were carried out to ensure the possibility of preparing a marketable concentrate from the ore. These are continuing and, at the same time, a limited diamond drilling program has been authorized.

In February 1968, Hydra granted an option to Discovery Mines Limited covering 44 claims in the Indin Lake Area of the Northwest Territories. These claims cover a large but low-grade gold deposit. Discovery Mines, which has a long and successful experience of gold production in this area, are carrying out a full-scale feasibility study of the property. It is unlikely that production can be foreseen at the present price of gold.

Your Company's most substantial asset has been its shareholdings in Consolidated Canadian Faraday Limited. That company's former uranium producer in the Bancroft area is presently under development by Federal Resources Corporation which has the right to earn a 51% interest in the property by bringing it into production. Faraday is presently producing nickel-copper concentrates from its mine in the Werner Lake area and has negotiated an agreement with Maskwa Nickel Chrome Mines Limited whereby a nickel-copper deposit on the Maskwa property, about 25 miles from Werner Lake, containing in excess of one million tons, will be brought into production by Faraday. The ore from the Maskwa property will be processed by the mill at Werner Lake which will be enlarged to accommodate the additional tonnage. After recovery of Faraday's disbursements for opening of the Maskwa mine and the mill extension, profits will be split equally between Maskwa and Faraday. For the purpose of financing this venture, Faraday has created and sold \$1,500,000 principal amount of 7½% Notes, and your Company has participated in the purchase of such Notes. Faraday has agreed to make an offering of its shares to its shareholders and to the extent that these shares are not taken up by the shareholders, the noteholders will have the right to convert their Notes at the offering price. In order to participate in the Note purchase transaction, your Company has liquidated a substantial part of its holdings of Faraday, anticipating the replacement of the shares so sold by conversion of part of the Notes.

Enclosed herewith you will find an Information Circular and a Notice calling the Annual General Meeting of Shareholders on November 29, 1968, at the hour of ten o'clock in the forenoon.

If you cannot attend the meeting in person, you are requested to sign and return the enclosed proxy at your earliest convenience, in order that your shares may be represented at the meeting.

On Behalf of the Board,

ASHTON W. JOHNSTON,
President.

HYDRA EXPLORATIONS LIMITED

AMALGAMATED UNDER THE LAWS OF ONTARIO

BALANCE SHEET

ASSETS

1967

Cash in bank and short term bank deposits	\$ 29,902	\$ 71,229
Investments in shares of and advances to other mining companies, at cost		
Listed (quoted market value \$582,440) (see note 1)	\$ 347,971	347,971
Unlisted (quoted market value \$1,787)	5,401	5,401
Advances to other mining company	300	300
	353,672	353,672
Mineral claims, rights and interests, at cost	372,780	378,780
Preproduction expenditures	1,444,374	1,424,454

Approved by the Board:

H. BRODIE HICKS, Director.

W. M. O'SHAUGHNESSY, Director.

\$2,200,728 \$2,228,135

July 31, 1968

LIABILITIES

1967

Accounts payable and accrued liabilities \$ 2,028 \$ 2,402

CAPITAL STOCK

Authorized

5,000,000 shares of a par value of \$1 each

Issued

4,050,040 shares ----- \$4,050,040 4,050,040

Less discount thereon 1,450,000 1,450,000

DEFICIT	401,340	374,307
	<u>2,198,700</u>	<u>2,225,733</u>

NOTE 1:

Included in the market value of \$582,440 is an amount of \$233,707 being the market value of shares in a mining company which have been lodged with a depositary in exchange for voting trust certificates under the terms of an agreement whereby the voting rights of the shares have been transferred to other persons. There is no quoted market value for the voting trust certificates.

\$2,200,728 \$2,228,135

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Hydra Explorations Limited as at May 31, 1968 and the statements of deficit, preproduction expenses and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of deficit, preproduction expenses and source and application of funds present fairly the financial position of the Company as at May 31, 1968 and the results of its operations and its source and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CAMPBELL, LAWLESS & PUNCHARD
Chartered Accountants

Toronto, Ontario

August 9, 1968

PREPRODUCTION EXPENSES

Year to May 31, 1968

	1967
Balance beginning of year	—
Predecessor companies	\$1,167,756
Amalgamated company	256,698
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	1,424,454
	\$1,386,543
 EXPLORATION AND DEVELOPMENT EXPENSES	
Engineering and geological services and expenses	\$ 4,237
Government fees, licences and acreage taxes	8,402
Diamond drilling	10,248
Sampling and assaying	2,278
General	1,005
	<hr/>
	26,170
	20,679
 ADMINISTRATIVE EXPENSES	
Head office and accounting services and expenses	6,000
Legal and audit	1,850
Miscellaneous	229
Stock exchange fees and expenses	200
Transfer agents' fees and expenses	3,981
Government fees and taxes	255
Shareholders' information and publicity	4,938
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	17,453
	17,232
Total preproduction expenses for the year	<hr/>
	43,623
	37,911
Deduct preproduction expenses of amalgamated Company written off to deficit	<hr/>
	1,468,077
	1,424,454
	23,703
	—
Balance end of year	<hr/>
	\$1,444,374
	\$1,424,454
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DEFICIT

Year to May 31, 1968

	1967
Balance beginning of year	\$ 374,307
Add	\$ 382,508
Mineral claims, rights and interests of amalgamated company abandoned (\$6,000) and preproduction expenses relating thereto (\$23,703) written off	\$ 29,703
Advances to other mining companies written off	101
Investments written off	—
	29,804
Deduct — Dividends and interest received	2,017
— Revenue from sale of gravel	754
	2,771
Balance end of year	<u>\$ 401,340</u>
	<u>\$ 374,307</u>

SOURCE AND APPLICATION OF FUNDS

Year to May 31, 1968

	1967
Cash in bank and short term bank deposits beginning of year	\$ 71,229
RECEIPTS	<u>\$ 102,696</u>
Dividends and interest	\$ 2,017
Refund of advances to other mining companies	—
Sale of gravel	754
	2,771
DISBURSEMENTS	<u>19,357</u>
Purchase of mineral claims and interest in claims	—
Purchase of investments	—
Preproduction expenses	—
Exploration and development expenses	26,170
Administrative	17,827
Advances to other mining companies	101
	44,098
Cash in bank and short term bank deposits end of year	<u>\$ 29,902</u>
	<u>\$ 71,229</u>